United Nations A/AC.257/27/Add.3

General Assembly

Distr.: General
20 September 2001

Original: English

Preparatory Committee for the International Conference on Financing for Development
Resumed third session
15-19 October 2001
Agenda item 2
Review of the inputs to the substantive preparatory process and the International Conference on Financing for Development

Technical notes

Note by the Secretary-General

Addendum

Technical note No. 3: Existing proposals for innovative sources of finance*

I. Introduction

1. Particularly in private financial markets there has been a process of frequent innovation in mobilizing financial resources for development during recent decades. Nationally these innovations have ranged from the development of microcredit facilities to the introduction of increasingly sophisticated financial instruments and markets. There has been less innovation, however, in the mobilization of financial resources through the public sector, with the exception of the increasing use of value-added taxes. More generally, policies such as liberalization and deregulation through, for example, reductions in tariffs and privatization, have reduced the capacity of the public sector to mobilize finance for development from traditional areas, while taxes have not been imposed in new areas such as those associated with globalization and commerce conducted through the Internet. On the other hand, especially in developing countries where public sector outlays are relatively low, demands on public resources are increasing, sometimes as a result of structural changes caused by globalization. The need to finance the provision of global public goods in an increasingly globalized world also adds new urgency to the need for innovative new sources of financing for development. Many innovative proposals have been made over the years to generate additional financing for development, either nationally or internationally.

2. Four important proposed innovative sources of finance are within the terms of reference of other technical notes:

* The preparation of the present technical note was coordinated by the Department of Economic and Social Affairs of the United Nations Secretariat. Staff from various non-governmental organizations and academic institutions also contributed, in a personal capacity, to its preparation.

01-54552 (E) 041001

- Revenue that could result from constraints on tax avoidance and evasion as well as on tax competition between countries following enhanced international cooperation on tax matters (covered in technical note No. 1);
- Revenue resulting from strengthened international cooperation to combat illegality and corruption, inter alia, through repatriation of illegally transferred funds to the countries of origin (covered in technical note No. 2);
- Renewal of the issue of special drawing rights (SDRs) (covered in technical note No. 9 on proposals to ensure the availability of sufficient international liquidity);
- Improved access to microcredit and to credit from domestic banking institutions (covered in technical note No. 10 on microcredit).

3. Leaving those four sources aside, the present note concentrates on proposals for three potential innovative sources of finance that have been frequently mentioned, all relating to *national taxes* resulting from possible international agreements, namely, taxation of international air transport (IATT); a carbon tax; and a currency transaction tax (CTT). Only a brief description is given of the first of these. For the last two, descriptions of the proposals are given following the structure in which they are frequently presented, that is to say, in relation to correction of externalities or market distortions; administrative costs and feasibility; enforceability; the potential for generation of revenue and likely trends; vertical and horizontal burden and incidence of the tax across countries; and other incidental matters.

4. Each of these revenue possibilities, as currently proposed, raises some similar issues. It is normally assumed that each of the taxes would be collected by *individual Governments* following international agreements. ***Thus, no international legislative body or collecting agency is supposed.*** Each revenue source would have to be negotiated and accepted by the countries that would be the major collectors of the revenue. (Agreement would be required among countries about what proportion of the revenue might be used for international purposes, if any, and how that would be calculated.) Decisions could also be required, if this was the case, about whether there would be some international sharing of revenue and, if so, about the management of the process of distribution. However, as indicated above, no considerations are made about how the funds acquired under any of the proposals might be administered.

II. Proposals

A. International air transport tax

5. Experts recognize air transport of passengers and cargo as a key source of environmental pollution due to emissions and noise. Proposals to impose an international air transport user tax have been discussed in various international forums, at the United Nations in particular.[1] Proponents of an international air transport tax support it on the ground that as an economic instrument it embodies the "polluter-pays" principle of internalizing environmental externalities. Such a tax is also progressive in ability-to-pay terms, both across income-class worldwide and across countries, since the tax burden would fall mostly on those individuals and businesses that most benefit from, and contribute to, the "globalization process" through international air transport. One concern expressed is the impact of IATT on tourist destination countries — some developing countries rely heavily on revenues from tourism for foreign exchange and they would be negatively affected given the high price-elasticity of tourist travel.

6. Potential revenue from IATT would probably not be large. A 1 per cent tax on the price of all international passenger tickets and freight transport is estimated to generate US$ 2.2 billion a year, and on passenger tickets, only US$ 0.8 billion.[2] Air travel, especially tourism, is highly income-elastic and may balance or swamp the price effect, at least when economies are growing strongly. Although taxing emissions would be more efficient from the point of view of environmental protection, the impact of IATT on the environment would be expected to be positive based on Organisation for Economic Cooperation and Development (OECD) studies of preliminary results of other eco-taxes implemented since the 1990s, and it would be relatively easy to administer. An alternative would be to impose an environmental tax on aviation fuel, though this has been exempted from excise under the Convention on International Civil Aviation of 1944 (Chicago Convention) to ensure "fair" international competition.[3]

7. Debate about an IATT also includes issues relating to the design of the tax with regard to the tax base: on fuel, passenger tickets and air freight or passenger tickets only; the type of tax: a flat charge per transaction or an ad valorem tax;[4] the tax rate; and how the levy would be collected and used.

B. Carbon tax

8. A carbon tax has been discussed as a potential new source of finance for development by the Commission on Sustainable Development and the High-level Panel on Financing for Development. It would utilize the market mechanism to contribute to a global public good, namely, the reduction in greenhouse gas emissions. It would also be a disincentive since such a tax would be based on the polluter-pays principle and internalizes a negative externality.

1. Nature and implementation

9. A carbon tax would be a levy on all commercial forms of hydrocarbon fuels at a uniform rate in relation to their carbon content. An attractive feature of the tax is that its imposition would discourage the generation of carbon dioxide (CO_2), the most important greenhouse gas. There are strong environmental arguments for fiscal instruments that discourage greenhouse gas emissions. A carbon base would therefore complement and strengthen the implementation of the agreements reached in Bonn in July 2001. If the tax was to be strictly universal, it would require the cooperation of every Government; but the absence of universal agreement would not make the operation impossible or necessarily unacceptable for those otherwise willing to take part. Implementation by, for example, the OECD countries alone would provide a large part of the potential revenue. Figures are regularly issued by many countries of consumption of most forms of commercial energy, and those for hydrocarbons can readily be converted, by a mean coefficient for each particular fuel, to carbon-equivalents.[5]

10. Governments would be free to collect the tax in several different ways; but the probable way would be in the form of an excise-type tax per unit quantity of hydrocarbon fuel sold, with the rate varying according to the carbon-content coefficient from one fuel to another. It would be accepted that Governments might already have a variety of taxes or subsidies or both falling on the use of hydrocarbon fuels, and that they might choose to make the general carbon tax additional to whatever had been in existence. It is not supposed that any commitment would necessarily be made to rationalize existing provisions. The agreement made might thus encourage participants to impose additional taxes at the required rates, but require them to submit internationally revenue corresponding, with perhaps a certain margin of tolerance, to the amounts due under ex post independent assessments of their residents' use of the various hydrocarbon fuels. It would be rationally consistent for the rates to be fixed by agreement in real terms,[6] with an agreed schedule of the carbon coefficients deemed to apply to different fuels.

2. Revenue yield in relation to market distortions; trends of revenue at given tax rates

11. Recently, consumption of commercial hydrocarbon fuels has averaged in the order of 1 ton of carbon per person per year across the world, a total now, therefore, of about 6 billion tons of carbon. A uniform carbon tax amounting on motor gasoline to US$ 2.00 per United States barrel, in other words 4.8 cents per United States gallon, would represent US$ 17 per ton of motor gasoline, which, at an approximate carbon content of 0.81, would mean US$ 21 per ton of carbon.[7] This, applied universally, would raise about US$ 125 billion.

12. If specific rates were fixed in real terms, revenue in real terms would be directly proportional to hydrocarbon use as measured by carbon content. Over the past 50 years, the use of hydrocarbons has risen considerably — but irregularly, with a downturn from 1979 to 1982, when energy costs were unusually high and economic activity was depressed. Success of any degree in the world effort to check global-warming influences, through conservation or technological substitutes, would reduce real revenue at any set of real rates.

3. Enforceability and administrative costs

13. Specific excises, especially on sales of bulky commodities, are among the easiest and most inexpensive taxes to impose. This is because the tax base is identified relatively easily. A gallon of gasoline or a ton of coal cannot readily be disguised.

14. In addition, it is noted that not only are specific excises on sales of commodities of this sort intrinsically cheap to administer compared with other kinds of tax but also, because the commodities will in many cases already be subject to specific taxes, the administrative machinery for taxing them would not have to be created anew, and in these many cases administrative and compliance costs of the extra taxation would be negligible.

4. Burden and incidence of the tax

15. The burden of the tax would fall to some extent on users of "commercial" hydrocarbon fuel — in relation to their use and to the carbon-intensity of the fuel that they use; and to some extent also on those involved at various stages in the extraction and processing of those fuels and on owners of property rights over hydrocarbon resources.

16. Among countries at any income level, there are wide variations in the ratio of hydrocarbon consumption to income — and even wider variations (from zero upward) in the proportional contributions of hydrocarbon resource rents to income. There would thus be big variations across countries in the proportion of carbon tax paid to national income at any given income level.

17. Poorer countries appear to have some tendency to consume more commercial energy per unit of income than richer ones, though, as mentioned above, there is great variation at both ends of the scale. To the extent that this is true, the tax would have some regressive tendency across countries. Hydrocarbon resources are important as sources of income in some high-, middle-, and low-income countries, the distribution having no obvious tendency to make the tax either progressive or regressive.

18. The High-level Panel suggests that a carbon tax could be structured to be supportive of developing countries by allowing them to recycle receipts into their own economies while industrialized countries would be required to pay a part of their receipts to international organizations responsible for financing global public goods.

19. In affluent countries, poor households tend to spend a higher proportion of income directly on fuel and power than rich ones, but any tendency to spend a higher proportion on energy would appear at least mitigated when indirect uses were taken into account. Moreover, in poorer countries it is not clear that, even directly, the poor would consistently spend more of their income on commercial energy than the rich. Hence, no generalization on the regressiveness or other characteristics of the tax with respect to income classes in any country is normally made.

20. Owners of hydrocarbon resources and participants in their extraction and processing would be affected disproportionately, insofar as the tax reduces energy spending or diverts it to non-hydrocarbon sources.

C. Currency transaction tax

21. The perceived advantages of deterring short-term speculation in the foreign exchange market and of generating large sums of revenue has made a CTT,[8] even at a "small" rate, attractive to a large number of proponents. Proposals for study of a CTT from Governments, international agencies, civil society organizations and the High-level Panel on Financing for Development have been presented to intergovernmental bodies on occasions such as the twenty-fourth special session of the General Assembly entitled "World Summit for Social Development and beyond: achieving social development for all in a globalizing world", financing for development hearings, meetings of the Commission on Sustainable Development and the Commission for Social Development, meetings of multilateral development banks, and meetings of major developed-country groupings.

1. Nature and implementation

22. What is generally proposed in this context is an ad valorem tax on foreign exchange transactions, possibly confined to the "wholesale" foreign exchange market and probably collected at the point of payment or settlement in banking systems. When proposed as a global source of revenue, this tax is normally conceived as applied at a uniform rate and ideally across the world. Until recently, it was normally discussed as if it would have to be assessed and collected when, and in whatever jurisdiction, foreign exchange trades were agreed; and, because trades might be agreed in any country and through any one of a variety of media, this raised doubts over whether enforcement would be possible, at least without near-universal cooperation on the part of Governments.

Recent proposals, however, suggest that applying the levy to wholesale trades at the point of bank settlement at a uniform rate would make it possible to collect (without the hazard of avoidance through diversion from taxed to untaxed jurisdictions), provided only that the authorities issuing those currencies acting for the time being as "vehicle-currencies" (five or six at present) would cooperate.[9] This would be the case, it is argued, because virtually all foreign exchange transactions have a vehicle-currency on at least one side and, if all were taxed at the same rate, there would be no reason to switch from one to another. The central bank issuing each of the vehicle-currencies is in a position to collect a tax on payments either into or out of banks within its jurisdiction; to distinguish payments for foreign exchange from those for other transactions; and to require similar information and taxation on any offshore netting system with access to its banks.

2. Revenue yield in relation to market distortions; trends of revenue at given tax rates

23. Total annual global currency transactions, as reported in daily form by the Bank for International Settlements (BIS), were of the order of US$ 360 trillion for 1998 and US$ 264 trillion for 2000, on the assumption of a 240-trading-day year.[10] US$ 264 trillion may be taken as an indicator of current levels. If a tax was fixed at 0.1 per cent and it had no effect on the tax base, it would raise revenue of the order of US$ 264 billion. If, to take another assumption, the tax at that rate was to reduce the tax base by 50 per cent, the yield would be US$ 132 billion.

24. It is generally considered that a tax at that low rate would have a negligible effect on trade or long-term investment, in spite of the fact that the increase that it would impose on the transactions costs of exchange for these purposes might possibly be several times as high as the tax rate. The effect of a currency transaction tax in reducing short-term capital movements thus cannot easily be judged, and opinions are divided over whether any such reduction should be regarded as good in deterring destabilizing speculation or as bad in deterring stabilizing speculation.

25. On the assumption that it might be deliberate policy to levy the revenue instrument at a rate that would have no more than a negligible effect on short-term capital movements (with any use of currency-transaction levies for stabilization purposes treated as a separate and independent exercise, possibly involving much higher rates specific to particular countries and circumstances), a rate of 0.02 per cent has been suggested, yielding, if there was no impact on the tax base, about $53 billion.

26. Uncertainty over the impact of the tax on its base might suggest that the tax, once Governments had decided to apply it for revenue purposes, might be initially imposed at an extremely low rate, and then raised by pre-agreed small steps so that some idea of the elasticity function of tax base to tax rate might be gained. A rate considered desirable in that light could thereafter be fixed.

27. Proponents point out that it seems most likely that the level of currency transactions under any of the tax rates considered would generally continue to grow — except insofar as there were further currency unions involving major currencies. However, they also note the fall recorded between 1998 and 2000, which was much larger than could be accounted for by the introduction of the euro.

3. Enforceability and administrative costs

28. Proposals cited above[11] suggest that, if the tax was confined to "wholesale" transactions and collected, with the cooperation of a handful of vehicle-currency countries, at the point of bank settlement, enforcement could readily and inexpensively be achieved, at least given the types of derivatives being used in 2001 within foreign exchange markets.

29. As also indicated above, administration of the tax by central banks on bank settlements should, as generally proposed, be administratively inexpensive. Compliance costs would also be low. Hypothetically, further forms of derivatives might be employed by transactors in order to make effective currency deals without bank settlements; and these, like devices for evading or avoiding other taxes, might possibly add extra investigative and legal costs, and also contribute to the difficulty of achieving coordinated additional legislation among the six or so major-currency authorities administering the tax. The costs and settlement risks of transacting outside the wholesale markets, however, or outside the banking system altogether, are likely in any case to *limit* the use of derivatives other than those that involve ultimate bank settlement and would fall within the normal scope of the tax.

4. Burden and incidence of the tax

30. The tax burden seems likely to fall on businesses and individuals in positive relationship to two elements: first, and overwhelmingly, their engagement in international financial markets; and second, and subsidiarily, their direct or indirect involvement in trade of goods and services, and in transfers and income flows and flows of long-term capital between currency areas. This is because the value of financial transactions is more than 50 times as great as the value of world trade in goods and services and over 500 times as large as that of foreign direct investment in 1998, the latest year firm figures were available for all three indicators.[12] In any case, the payer of the CTT is most likely to be a beneficiary of increased international financial and trade flows, especially of the globalization of financial markets.

31. Richer countries would be expected to collect a much larger share of the tax than poorer countries in relation to income on the grounds of their dominant share of financial transactions. However, at each average-income level, countries with higher reliance on financial services would tend to show a larger ratio of tax to income.

32. Individuals and corporations selling foreign exchange services or participating in foreign exchange arbitrage and speculation are likely to be deriving quasi-rents from the foreign exchange markets, and hence in general will tend to bear a larger share of the burden than other classes of persons. Since financial transactions are likely to be directly related to income, it is probable that the incidence of the tax across individuals in any country would be progressive.

D. Other proposals

33. Several other proposals exist that are not referred to in detail in this note for various reasons, namely, that, inter alia, they would generate very little or no revenue; they relate basically to domestic policy and do not require international cooperation to implement; or that arrangements already exist that would enable generation of finance from the source. Among those that are most commonly mentioned are:

- Taxation of the global commons through mining of the seabed or Antarctica or use of outer space. There is no seabed mining at present and if there were, provisions exist for taxing it under the United Nations Convention on the Law of the Sea.[13] Taxing of ocean fishing would be possible but is unlikely to generate significant revenue. Mining in Antarctica is prohibited. The satellite use of outer space would not generate significant revenue at any reasonable tax rate;

- General levies on natural resource extraction and land. These are generally regarded as a national matter about which the justification for international coordination would seem to be no greater than for other normal sources of domestic revenue. A major problem would also be establishing a fair and sufficiently simple basis for assessment;

- Taxation of arms exports. This would largely involve Governments in "taxing themselves". A tax on arms might well fall on importers rather than exporters and in that case disproportionately on developing countries since they are mostly net buyers. Compensation arrangements would be possible but would add to the administrative complexity of the proposal. The tax would probably not contribute very much to limiting illegal transfer of arms (and in fact might have the opposite effect);

- A "bit tax". This would be a small tax on the volume of data transmitted through the Internet, at 1 United States cent on every 1,000 kilobytes of data, for example. At this rate, Internet data traffic in 1996 would have generated $70 billion.[14] Although such a tax could have the potential to mobilize increasing amounts of revenues, proponents point out that, given the rapid expansion of the Internet, imposing a tax on such an important and cross-cutting emerging technology would probably not be easy. And administering a tax in an area of activity that is evolving as rapidly as the Internet would also be complex and technically difficult;

- Public/civil society/private partnerships. These encompass not only national arrangements that do not require international agreement for effective operation but also many forms that have been in operation for decades or even centuries (particularly in sectors such as education, health and other social services) and so are hardly innovative. It is true that during the 1990s the concept of public/civil society/private sector

partnership in development gained more support and was applied more widely, but since such partnerships are already being effected in most countries, more detailed references were not included in this technical note. Some of the issues are discussed in the report of the Secretary-General to the Preparatory Committee (A/AC.257/12).

Notes

[1] See reports of the Secretary-General to the Commission on Sustainable Development for various years.

[2] See report of the Secretary-General on financial resources and mechanisms for sustainable development: overview of current issues and developments (E/CN.17/1995/8, para. 218).

[3] International Civil Aviation Organization: "Aircraft engine emissions: ICAO's existing policies", background information paper for the Colloquium on Environmental Aspects of Aviation, 1-11 April 2001, Montreal.

[4] Such taxes are proportional to the monetary value of taxed transactions.

[5] For example, the form of accounting that reduces these and other substances and processes to equivalents as generators of greenhouse activity used by the United Nations Framework Convention on Climate Change (United Nations, *Treaty Series*, vol. 1771, No. 30822) can be utilized to make the conversions.

[6] For example, the rate in carbon to be expressed in exchange-equivalents of constant-purchasing-power amounts in SDRs or United States dollars.

[7] Coefficients and relationships from Economist Newspaper, Limited (1964); and as implied in Grubb (1989, p. 35).

[8] This is often referred to as the "Tobin tax", after the Nobel laureate James Tobin who first proposed it in a 1978 article. For an overview of the debates over and the evolution of this tax proposal, see, for example, T. Palley (2001) and Ul Haq, Kaul and Grunberg (1996).

[9] See Schmidt (1999; 2001).

[10] Based on daily turnover reported in Bank for International Settlements (BIS), *Annual Report of the Bank for International Settlements, 2000-2001* (Basel, 2001), p. 98. However, large differences reported for the same period in different issues of the source suggest that these figures should be taken as highly approximate.

[11] See Schmidt (1999; 2001) and Spahn (1996).

[12] Currency transaction volume is based on Bank for International Settlements, *Annual Report of the Bank for International Settlements, 2000-2001* (Basel, 2001); trade value is as reported by the World Trade Organization (Historical Series, available at http://www.wto.org/english/res_e/statis_e.htm); and FDI flows are from the United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2000* (United Nations publication, Sales No. E.00.II.D.20), annex, table B.1.

[13] See *The Law of the Sea: Official Texts of the United Nations Convention on the Law of the Sea of 10 December 1982 and of the Agreement relating to the Implementation of Part XI of the United Nations Convention on the Law of the Sea of 10 December 1982 with Index and Excerpts from the Final Act of the Third United Nations Conference on the Law of the Sea* (United Nations publication, Sales No. E.97.V.10).

[14] United Nations Development Programme (UNDP), *Human Development Report, 1999* (New York, Oxford University Press, 1999), p. 66.

Bibliography

General

Clunies-Ross, A. (1999). Sustaining revenue for social purposes in the face of globalization. In Department of Social and Economic Affairs of the United Nations Secretariat, Division for Social Policy and Development, *Experts Discuss Some Critical Social Development Issues*. ESA/DSPD/BP.2. May 1999. New York.

Herber, B. P. (1997). Innovative financial mechanisms for sustainable development: overcoming the political obstacles to international taxation. *In Finance for Sustainable Development: The Road Ahead*, Proceedings of the Fourth Group Meeting on Financial Issues of Agenda 21, Santiago, Chile.

United Nations (1995a). Financial resources and mechanisms for sustainable development: overview of current issues and developments: report of the Secretary-General to the Commission on Sustainable Development. E/CN.17/1995/8. 24 March 1995.

_____ (1995b). Letter dated 24 February 1995 from the Permanent Representative of Malaysia to the United Nations addressed to the Secretary-General. E/CN.17/1995/29.

_____ (1997a). Overall progress achieved since the United Nations Conference on Environment and Development: report of the Secretary-General to the Commission on Sustainable Development: addendum: financial resources and mechanisms. E/CN.17/1997/2/Add.31. 14 February 1997.

_____ (1997b). *Finance for Sustainable Development: The Road Ahead*, Proceedings of the Fourth Group Meeting on Financial Issues of Agenda 21, Santiago, Chile.

_____ (2000a). Financing for development: hearings with civil society, 6 and 7 November 2000: Summary of panel presentations and discussion. A/AC.257/18. 28 December 2000. Submitted to the Preparatory Committee for the High-level International Intergovernmental Event on Financing for Development.

_____ (2000b). Report of the Secretary-General to the Preparatory Committee for the High-level International Intergovernmental Event on Financing for Development. A/AC.257/12. 18 December 2000.

_____ (2000c). Finance for sustainable development: testing new policy approaches: background paper, No. 15. DESD/DSO/2000/15. Part III. Submitted to the Commission on Sustainable Development at its eighth session, 24 April-5 May 2000.

_____ (2001). *Technical Report of the High-level Panel on Financing for Development*, in General Assembly document A/55/1000, 26 June 2001.

Carbon tax

Economist Newspaper, Limited (1964). *The Economist Guide to Weights and Measures*, 2nd ed. London.

Grubb, M. (1989). *The Greenhouse Effect: Negotiating Targets*. London: Royal Institute of International Affairs.

OECD (1997). *Environmental Taxes and Green Tax Reform*. Paris.

_____ (2000). *Analytical Report on Sustainable Development*. Chap. 7, Sustainable development: implementing appropriate framework conditions. SG/SD(2000)7. Paris.

Currency transaction tax

Bode, B. (2001). Currency transaction tax: an innovative resource for financing social development. In *Financing for Development: Proposals from Business and Civil Society*, B. Herman, F. Pietracci and K. Sharma, eds. Tokyo and New York: United Nations University Press, pp. 145-151.

Cassimon, D. (1999). Taxing excessive currency speculation to prevent social crisis and finance global challenges: a proposal for discussion. Background paper prepared for International Cooperation for Development and Solidarity (CIDSE).

Halifax Initiative (2000). Taxing currency transactions for development. Submission to the preparatory process for the International Conference on Financing for Development.

Henderson, H. (2001). Addressing key causes of poverty and inequality: reforming money-systems and extending money-free, information-based barter trading systems. Paper presented at the Annual Meeting of the Inter-American Development Bank, 18 March 2001, Santiago, Chile.

Kay, A. F., and H. Henderson (1999). A foreign exchange transaction reporting system (FXTRS^{sm}) for central banks. *Futures*, No. 39, pp. 759-777.

Palley, T. I. (2001). Destabilizing speculation and the case for an international currency transactions tax. Paper presented at the Quaker Colloquium on the United Nations Conference on Financing for Development, Mohonk Mountain House, New Paltz, New York, 17-19 June 2001.

Schmidt, R. (1999). A feasible foreign exchange transactions tax. Paper presented to the North-South Institute, Ottawa, March 1999.

_____ (2001). Efficient capital controls. *Journal of Economic Studies*, vol. 28, No. 3, pp. 199-212.

Spahn, P. B. (1996). The Tobin tax and exchange rate stability. *Finance and Development*, vol. 33 (June), pp. 24-7.

Ul Haq, M., I. Kaul and I. Grunberg, eds. (1996). *The Tobin Tax: Coping with Financial Volatility*. New York: Oxford University Press.

United Nations A/AC.257/27/Add.4

General Assembly

Distr.: General
20 September 2001

Original: English

Preparatory Committee for the International Conference on Financing for Development
Third session
15-19 October 2001
Agenda item 2
Review of the inputs to the substantive preparatory process and the International Conference on financing for Development

Technical notes

Note by the Secretary-General

Addendum

Technical note No. 4: Existing proposals to promote the increased and more effective participation of developing countries in the trade and financial decision-making processes*

* The preparation of the present technical note was coordinated by the Financing for Development Coordinating secretariat. Staff from the following entities collaborated, in a personal capacity, in its preparation: the Department of Economic and Social Affairs of the United Nations Secretariat, the United Nations Conference on Trade and Development, the International Monetary Fund, the World Bank, the World Trade Organization, the Economic and Social Commission for Asia and the Pacific, the Economic and Social Commission for Latin America and the Caribbean, the United Nations Development Programme, the Intergovernmental Group of Twenty-four Liaison Office, and various academic institutions.

01-54559 (E) 081001

I. Introduction

1. "Increased and more effective participation" has several dimensions, ranging from ensuring that more and more the voices of developing countries are heard to developing a situation in which their voting in relevant bodies is increased in a meaningful way. Regarding effectiveness, the dimensions range from ensuring the physical presence of individual developing countries in international negotiations to ensuring that each country representative has the required expertise on the subject under consideration and has also some experience or some training in negotiation processes. These dimensions have a similar connotation in institutions such as the International Monetary Fund (IMF) and the World Bank, where the voting process is largely based on the financial weight of the stakeholders. In the World Trade Organization — a more recently established institution with a growing membership — the large majority of decisions are taken by consensus and changes regarding participation of members and accession of new countries might have a different connotation.

2. The focus in the list of proposals given below is on intergovernmental bodies that discuss or negotiate principles, norms, standards or rules and set policies or policy guidelines.

II. List of proposals

A. Increased participation in financial decision-making processes

3. The report of the Secretary-General (A/AC.257/12) to the Preparatory Committee for the International Conference on Financing for Development (in paras. 134, 136, 137 and 166) contains proposals towards increased participation of developing countries in economic and financial decision-making. In the list that follows, the origin of the proposal and the intergovernmental body to which the proposal was presented have been identified except in the case of ministerial communiqués (for example, the Intergovernmental Group of Twenty-four (G-24) ministerial communiqués are regularly presented to the IMF International Monetary and Financial Committee and the Joint IMF/World Bank Development Committee and the results of the United Nations Conferences are regularly presented to the General Assembly).

1. *Origin*: Ministerial declaration (E/2001/L.20) of the high-level segment of the substantive session of 2001 of the Economic and Social Council, 18 July 2001

   Presented to: the high-level segment of the substantive session of 2001 of the Economic and Social Council on the role of the United Nations in support of the efforts of African countries to achieve sustainable development, 18 July 2001

   Proposal: Ministers "welcome the dialogue between the Group of Eight and representatives from Africa, including at the highest level, and invite the Group of Eight to maintain the dialogue to ensure that the challenges facing the region are given due attention on a regular basis" (para. 25).

2. *Origin*: Eleventh Summit of the Heads of State and Government of the Group of Fifteen, Jakarta, Indonesia, 30 and 31 May 2001

   Proposal: "More meaningful and equitable participation, cooperation and consultation between developing and developed countries are required in the reform of the international financial system to ensure that the interests of all developing countries are safeguarded."

3. *Origin*: Deliberations of the special high-level meeting of the Economic and Social Council with Bretton Woods institutions, held on 1 May 2001 (see E/2001/72)

   Presented to: Substantive session of 2001 of the Economic and Social Council, July 2001

   Proposal: (as reflected in para. 53 of the summary of the meeting on 1 May 2001): "Regarding the ongoing reforms of the Bretton Woods institutions, several ministers welcomed the review of IMF conditionality initiated by its Managing Director, with a view to making it better focused, more effective and less intrusive, as well as to enhancing programme ownership. Nevertheless, developing

countries still needed a larger voice in the decision-making processes of these institutions. More generally, there was broad convergence on the need for inclusion and participation of all countries and stakeholders in global policy-making as a prerequisite to ensure its success."

4. *Origin*: Quota Formula Review Group (report to the IMF Executive Board of the Quota Formula Review Group, 12 April 2001)

   Presented to: IMF Executive Board (April 2001)

   Proposal: "The most important criteria for assessing any proposals for change in the quota formulas are: (a) any new formula should have a sound economic basis and reflect the relevant changes in the world economy; (b) its form and content should be consistent with the multiple functions of the quotas; and (c) it should be simple and transparent."

   The Group, whose purpose was to review the adequacy of calculated quotas in the light of changes in the world economy and the increasing globalization of markets, did not reach unanimity on any precise formula, but one option — a minority view — which is to use purchasing power parity (PPP) exchange rates instead of market exchange rates in the calculations, would lead to a relative increase in the quota (and voting power) of developing countries.

5. *Origin*: Report of the Regional Consultation on Financing for Development in the Western Asia Region, Beirut, 23 and 24 November 2000 (A/AC.257/16)

   Presented to: Preparatory Committee at its second substantive session, February 2001

   Proposal: "... To perform needed functions effectively ... it is necessary to reform the governance of the international financial institutions (IFIs), including their voting structures and decision-making processes, with a view to bringing about greater participation of developing countries" (para. 64).

6. *Origin*: Deliberations on the high-level international intergovernmental event on financing for development of the eighth session of the Meeting of Ministers of Finance of African Countries, Addis Ababa, Ethiopia, 21 and 22 November 2000: ministerial statement (A/AC.257/14, annex)

   Presented to: Preparatory Committee, February 2001

   Proposal: "We are of the opinion that there is need for a serious dialogue on the issue of governance of the international financial system. The basic problem today is the exclusion of a large number of developing countries, especially from Africa, from the decision-making process of the international financial system. Such a dialogue invariably would need, inter alia, to include a review of the respective roles of the Bretton Woods institutions, such as reconsidering their governance structures, providing a greater voice to developing countries, and customizing their programmes to the needs of developing countries" (para. 25).

7. *Origin*: Intergovernmental Group of Twenty-four (G-24) on International Monetary Affairs, G-24 Meeting of Ministers, ministerial communiqué, 23 September 2000

   Proposal: "Ministers welcome the ongoing discussion of a whole range of complex issues relating to the role, structure, and context of the Fund's quota formulae. They hope that these discussions will lead to a more balanced distribution of quotas between industrialized and developing economies and the provision of a larger voice for developing economies in the decision-making process of the Fund. They also reiterate their support for a revision of the size of the basic votes" (para. 18).

8. *Origin*: Report of the Regional Consultative Meeting on Financing for Development in the Asia and Pacific Region, Jakarta, 2 to 5 August 2000 (A/AC.257/13)

   Presented to: Preparatory Committee, February 2001

Proposal: "The view was expressed that regarding its treatment of developing countries, IMF was not meeting the objectives of its articles of agreement.

"• IMF remains the appropriate forum for the reform of the international financial architecture.

"• There is a need to review IMF quotas" (para. 41).

9. *Origin*: Report of the Secretary-General entitled "Towards a stable international financial system, responsive to the challenges of development, especially in the developing countries" (A/55/187 and Add.1 and 2), 27 July 2000

Presented to: General Assembly at its fifty-fifth session (September-December 2000)

Proposal: "There is ... a broadening view that the voting structures of the Fund and Bank should be realigned both to better reflect current economic realities and to give more representation to low-income countries" (para. 72). "Sometimes, the principle of 'subsidiarity' can usefully limit what needs to be addressed at global level, or sub-groupings of the whole membership can deliberate first in decentralized forums and the group views can then be represented in the global forum. On both counts, it follows that, along with global institutions, stronger regional and subregional bodies can play a significant role in the globalizing world economy. It has been suggested, for example, that a more decentralized policy-making process might be conceived wherein regional forums would help prepare for discussions by representatives in global forum and thus facilitate wider participation in the discussion of global issues" (para. 73).

10. *Origin*: G-24 ministerial communiqué, 15 April 2000, Washington, D.C.

Proposal: "Ministers are concerned about the increasing role being taken in international monetary and financial affairs by international forums — other than the Bretton Woods institutions — in which the representation of developing countries is limited. The work of these forums has a direct bearing on developing countries. Therefore, Ministers urge that such issues should be considered within the Bretton Woods institutions, given their universal membership, and that agreements be reached in their decision-making bodies" (para. 11).

11. *Origin*: G-24 ministerial communiqué, 25 September 1999, Washington, D.C.

Proposal: "Ministers stress that, in order for informal mechanisms for dialogue between 'systemically significant' countries to gain ownership and representation, the choice of participants should take into account the constituency structure of the Bretton Woods institutions. They consider that such mechanisms should not undermine the role of the Bretton Woods institutions' Executive Boards and Committees as the appropriate forums for addressing the main issues facing the international monetary and financial system" (para. 16). "While welcoming the establishment of the Financial Stability Forum, Ministers consider that developing countries should be appropriately represented in order to ensure that their views are properly reflected" (para. 17).

12. *Origin*: Communiqué of the Meeting of Ministers for Foreign Affairs and Heads of Delegation of the Non-Aligned Movement, 23 September 1999 (A/54/469-S/1999/1063, annex)

Proposal (adopted in the communiqué): "... However, we regret that the voice of developing countries in decision-making still does not realistically reflect their emergence as important actors in the world economy. We therefore urge developed countries to give this cumulative contribution and role meaningful and commensurate recognition. The participation of developing countries in global economic decision-making, particularly in the international financial institutions, as well as in trade and other

economic areas, should thus be enhanced. We reaffirm the need for such democratization and transparency in international economic and financial decision-making in all forums and at all levels, with the full participation of developing countries so as to ensure that their development interests would be finally taken into account" (para. 104).

13. *Origin*: Commonwealth Finance Ministers meeting, Grand Cayman, Cayman Islands, 21-23 September 1999 (reiterated at the Commonwealth Finance Ministers meeting, St. Julians, Malta, 19-21 September 2000)

Proposal: "They (ministers) also stressed the need for a more inclusive process of shaping the international financial architecture. In this context, they welcomed the suggestion of enhanced participation of developing countries in the Financial Stability Forum."

14. *Origin*: High-level Regional Meeting "Towards a stable and predictable international financial system and its relationship to social development", held in Mexico City from 5 to 7 September 1999 under the auspices of the Government of Mexico and in collaboration with the Economic Commission for Latin America and the Caribbean (ECLAC) (A/54/384, annex, appendix), 22 September 1999

Presented to: General Assembly at its fifty-fourth session

Proposal: "The developing countries' regional groups and coalitions, such as the Group of 77, the Group of 24, the Group of 15 and the Rio Group, should strengthen their participation in the dialogue with the Group of Seven, other industrialized countries and international financial institutions, with a view to ensuring consistency and universality of economic policy measures and to designing and setting up the new international financial architecture. Regional and subregional financial institutions have a key role to play in this endeavour" (para. 17).

15. *Origin*: G-24 ministerial communiqué, Washington, D.C., 26 April 1999

Proposal: "Ministers underscore the necessity of comprehensive reforms of the international monetary and financial systems, geared to prevent costly economic crises and to manage them effectively when they occur. They are of the view that improvements in the system should be built around the existing international institutions and emphasize the need for developing countries to have an equitable representation in this process. In this regard, Ministers reiterate their call for the establishment of a task force with participation from industrialized countries and representatives from a wide range of developing countries to engage in an in-depth examination of issues related to the reform of the international monetary and financial system" (para. 7).

16. *Origin*: Report of the Committee for Development Planning on its thirty-second session. (*Official Records of the Economic and Social Council, 1998, Supplement No. 14* (E/1998/34))

Presented to: Economic and Social Council, at its substantive session of 1998

Proposal: A world financial organization could be established "to provide overall guidance in the development and monitoring of international standards and codes of conduct for private financial management and capital flows, and to identify new needs for supervision of private capital markets as they arise" (para. 7). The proposal has been reiterated by the Executive Committee on Economic and Social Affairs of the United Nations in its report "Towards a new international financial architecture" (21 January 1999) which was presented to the Second Committee of the General Assembly. Discussing the proposal, the Committee added that "such an institution could evolve from existing ones, such as the Banu for International Settlements (BIS) and the International Organization of Securities

Commissions (IOSCO)", which would require a "significant expansion of the membership of these organizations".

17. *Origin*: Ministerial Meeting of G-24, Caracas Declaration II, Caracas, Venezuela, 7-9 February 1998 (proposal reiterated at the G-24 Ministerial Meetings of April 1998 and October 1998)

Summary of the proposal: Establishment of a Task Force with participation from industrialized countries and representatives from a wide range of developing countries to engage in an in-depth examination of issues related to the reform of the international monetary and financial system. One of the six issues that the Task Force is called to address is the following: "The increased representation and participation of developing countries at the decision-making level of international financial institutions to properly reflect developing countries' growing role in the world economy, including through the revision of the bases determining the voting power in these institutions." The terms of reference of the Task Force could include the examination of ways to approach these issues more efficiently within existing bodies.

18. *Origin*: Report of the Secretary-General entitled "Global financial integration: an update" (A/52/406), 30 September 1997

Presented to: General Assembly at its fifty-first session

Proposal: "The Board of Directors of BIS continues ... to comprise only representatives of the central banks of the Group of Ten ... the developing countries should participate fully in the deliberations and decisions on international supervisory issues" (para. 51).

19. *Origin*: G-24 ministerial communiqué, Washington, D.C., 21 April 1996

Proposal: "Ministers emphasized the importance of maintaining a proper balance in the representation of members and regions within the Executive Board of the Fund and expressed serious concerns about the relative decline in the quota share of developing countries over time. They stressed that the quota increase under the Eleventh General Review of Quotas should be predominantly equiproportional to ensure an adequate increase in quotas for all members and to help maintain the quota share of the developing countries" (para. 9). "They also called for a review of the number of basic votes, which would enhance the participation of developing countries, especially a number of smaller ones, in decision making in the Fund" (para. 10).

20. *Origin*: G-24 ministerial communiqué, Washington, D.C., 7 October 1995

Proposal: "With regard to the Halifax communiqué on this subject, Ministers reiterated the position taken in the G-24 Resolution adopted in Madrid in October 1994, and reaffirmed in April 1995 in Washington, D.C., that any assessment of the functioning of the international monetary and financial system must be made with the full and substantive participation of the developing countries. Accordingly, Ministers emphasized the importance of the involvement of the developing countries in any discussion on the reform of international financial institutions along the lines of the Committee of Twenty" (para. 24).

21. *Origin*: G-24 ministerial communiqué, Thailand, 12 October 1991

Proposal: "Ministers underscored, in view of the expanding membership of the Bretton Woods institutions, the critical importance of preserving the genuinely multilateral character of these institutions. They reiterated that new membership should not adversely affect the present geographical representation of developing countries on the Executive Boards of the Fund and the Bank. Ministers also reiterated the importance of ensuring an adequate representation of developing countries in the senior management of the Bretton Woods institutions" (para. 46).

B. Increased participation in trade decision-making processes

4. A significant development in this field has been the recent decision of the Director-General of the World Trade Organization to appoint a panel of experts to advise him on the challenges and opportunities confronting the organization and the global trading system. Accordingly, one of the main tasks of the panellists will be to examine "how the organization can ensure the fullest possible participation of each member Government as the World Trade Organization expands to near-universal membership" (WTO/News Press/236, Geneva, 5 July 2001). It is also important to note that since Seattle the General Council of the World Trade Organization has tried to ensure that the negotiation and discussion process in the World Trade Organization is fully transparent and open to all members and observers. All substantive issues regarding, for example, implementation of the World Trade Organization agreements, preparation for the Doha Ministerial Conference and the possible launch of a new round of trade negotiations are discussed in formal or informal sessions of the World Trade Organization's General Council. "Subsidiary" bodies which deal with special topics are nonetheless open to all members and observers and are required to report back to the General Council.

1. *Origin*: Zanzibar Declaration, The Least Developed Countries Trade Ministers' Meeting, 24 July 2001, Zanzibar, United Republic of Tanzania

   To be presented to: Fourth World Trade Organization Ministerial Conference to be held in Doha, Qatar, from 9 to 13 November 2001

   Proposals: The Ministers responsible for trade of the least developed countries, meeting in Zanzibar "call on the fourth World Trade Organization Ministerial Conference to agree on (a) facilitating the accession of least developed countries into the World Trade Organization with a more streamlined process of accession, under terms consistent with their development, financial and trade needs and commitments not higher than those undertaken by least developed countries World Trade Organization members, including transitional periods mandated by World Trade Organization Agreements starting from the date of accession and (b) ensuring that, in view of the least developed countries' limited capacity to negotiate and undertake further commitments, the scope of the future World Trade Organization work programme is manageable and agreed by all members by consensus, and that any future negotiations are based on an agenda accommodating least developed countries' interests" (para. 4).

2. *Origin*: Report of the High-level Panel on Financing for Development (A/55/1000), United Nations, 26 June 2001

   Presented to: Secretary-General of the United Nations

   Proposal: "There is a case for establishing a small steering group that can be delegated responsibility for negotiating consensus on future trade accords among World Trade Organization member countries. Ideally, the composition of the steering group should be representative of the total World Trade Organization membership, and participation should be based on clear, simple and objective criteria."

3. *Origin*: Eleventh Summit of the Heads of State and Government of the Group of Fifteen, Jakarta, Indonesia, 25-31 May 2001

   Proposal: "We reaffirm that a rule-based, open, just, equitable and non-discriminatory multilateral trading system is a prerequisite for a sound and balanced international economy and the credibility of the multilateral trading system. In this context, greater democracy and internal inclusiveness, internal transparency and effective participation of all members in the decision-making process in the World Trade Organization should be enhanced in order to accommodate the legitimate requirements and priorities of developing countries" (para. 17).

4. *Origin*: Deliberations at the Third United Nations Conference on the Least Developed Countries: Programme of Action for the

Least Developed Countries for the Decade 2001-2010 (A/CONF.191/11), Brussels, Belgium, 14-20 May 2001

Summary of the proposal: To facilitate the accession process for least developed countries in the World Trade Organization on the basis of terms that take into account their stage of development and the basic principles of special and differential treatment. In the meantime, to support efforts of least developed countries already seeking to accede.

5. *Origin*: Report of the Regional Consultation on Financing for Development in the Latin America and the Caribbean Region, Bogotá, 9 and 10 November 2000 (A/AC.257/17)

Presented to: Preparatory Committee, February 2001

Proposal: "Of critical importance is a fair, equitable and rule-based multilateral trading system, operating in a non-discriminatory, inclusive and transparent manner that provides benefits for all countries, especially developing countries. This must involve, inter alia, effective participation of the latter in decision-making ... " (see para. 53, containing the statement entitled "Towards the High-level International Intergovernmental Event on Financing for Development", para. 7).

6. *Origin*: Report of the Secretary-General to the Preparatory Committee for the High-level International Intergovernmental Event on Financing for Development (A/AC.257/12), United Nations, 18 December 2000

Presented to: Preparatory Committee at its second substantive session, February 2001

Summary of the proposal: In discussing systemic issues of governance and policy coordination, the report recommends that "the United Nations and the World Trade Organization should continue to work innovatively and constructively with each other in pursuing overall coherence and consistency issues related to the international monetary, financial and trading systems, especially as they relate to the support of development. In this context, the United Nations Conference on Trade and Development (UNCTAD) Trade and Development Board should further deepen regular interactions with the Committee on Trade and Development of the World Trade Organization General Council. Other interactions and cross-participation of senior officials, committee chairs and interested government representatives in United Nations and World Trade Organization intergovernmental meetings should be similarly facilitated" (box between paras. 139 and 140). The Secretary-General's report also suggests that "the Ministerial Conference of the World Trade Organization might wish to keep on its permanent agenda further consideration of the issue of its institutional relationship with the United Nations" (para. 139).

7. *Origin*: Report of the Regional Consultation on Financing for Development in the Latin America and the Caribbean Region, Bogotá, 9 and 10 November 2000

Presented to: Preparatory Committee at its second substantive session, February 2001

Proposal: "To this end" (here the report refers to the preceding paragraph calling for "reforms needed for a more equitable, participatory, solid and stable international financial and trade system; within a convergence of efforts" of the United Nations with the Bretton Woods institutions and the World Trade Organization), "it is essential that the process of reform for a strengthened and stable international financial architecture should be based on broadened and strengthened participation of developing countries in the international economic decision-making and norm-setting processes in order to promote more efficient international institutions and arrangements in which all relevant interests can be effectively represented" (para. 53 containing the statement entitled "Towards the High-level International Intergovernmental Event on Financing for Development", para. 5).

8. *Origin*: South Summit: Havana Programme of Action (A/55/74, annex II) (ministerial meeting of the Group of 77 and China), 10-14 April 2000, Havana, Cuba

Proposal: (We, the Heads of State and Government, commit ourselves to the following decisions and actions:) "Work towards achievement of the universal membership of the World Trade Organization as soon as possible in order to strengthen the multilateral trading system. We strongly believe that appropriate assistance should be made available to developing countries seeking accession. They should be offered terms that neither exceed nor are unrelated to the commitments of developing-country and least developed country members of the World Trade Organization. We urge that all World Trade Organization members refrain from placing excessive or onerous demands on applications from developing countries. We therefore stress the need for a transparent, streamlined and accelerated accession process that is in keeping with World Trade Organization rules and disciplines" (sect. V, para. 12 (1)).

9. *Origin*: Marrakech Declaration (A/54/392, annex), 7 September 1999 (Ninth ministerial meeting of the Group of 77 and China)

Presented to: Tenth session of UNCTAD (February 2000) and reiterated at the Eleventh Summit of the Heads of State and Government of the Group of Fifteen, Jakarta, Indonesia, 25-31 May 2001 (para. 21)

Proposal: "The universality of the World Trade Organization should be achieved as soon as possible in order to strengthen the multilateral system. We strongly believe that appropriate assistance should be made available to developing countries seeking accession. They should be offered terms that do neither exceed nor are unrelated to the commitments of developing-country and least developed country members of the World Trade Organization" (para. 23).

10. *Origin*: Deliberations of UNCTAD at its tenth session, Plan of Action (TD/386), 18 February 2000, Bangkok, Thailand

Proposal: "The impact of the World Trade Organization commitments on national policies for small and medium-sized enterprise (SME) development, particularly those facilitating market access, has yet to be assessed. In addition, environmental and health-related standards may affect exports by developing-country companies and SMEs to countries in which these standards have to be met. Some least developed countries have already experienced export losses. Participation of developing countries in standard-setting needs to be enhanced" (para. 79).

C. More effective participation in financial and trade-related decision-making processes

5. The report of the Secretary-General (A/AC.257/12) in paragraph 81 calls for enhancing contributions to the Trust Fund established in the context of the Integrated Framework, whose objective is, inter alia, to enhance the capacity of developing countries in the negotiation of trade policies. It also calls on World Trade Organization members to expand the scope of the Integrated Framework to cover particularly countries of Africa, small island States, and landlocked and transit developing countries. It should be noted that several recommendations to enhance the effective participation of developing countries in the decision-making process were recently considered and adopted (see particularly paras. 129-139 of the Plan of Action adopted at the tenth session of UNCTAD in Bangkok, 18 February 2000). To the same end, the World Trade Organization is circulating regular briefing notes on developments in World Trade Organization bodies to members and observers that have no missions, or small missions, in Geneva. A one-week meeting for non-residents is conducted annually in Geneva. Officials from capitals of non-resident members and observers are invited for intensive briefings and discussions of World Trade Organization issues.

1. *Origin*: Deliberations at the G-8 Summit Meeting in Genoa, Italy, 19 July 2001

   Summary of the proposal: The Italian Foreign Affairs Minister Renato Ruggiero declared at the final press conference of the G-8 Ministerial Meeting that the Canadian Presidency had been asked to envisage an enlarged forum immediately after the G-8 meeting next year. This would be a "G-22" meeting to be held immediately after the Summit at which to compare notes and coordinate international commitments vis-à-vis the more severe challenges faced by less developed countries.

2. *Origin*: Deliberations of the special high-level meeting of the Economic and Social Council with the Bretton Woods institutions, held on 1 May 2001 (E/2001/72)

   Presented to: Substantive session of 2001 of the Economic and Social Council, July 2001

   Proposal (as reflected in para. 38 of the summary of the meeting, held on 1 May 2001): The Chairperson of the Financial Stability Forum said that "(w)ith regard to representativeness of participation, it was vital that countries felt ownership, requiring the involvement of all those interested in the issues. Consultation mechanisms had to be further developed so that all voices could be heard. Regional forums could play an important role in this regard".

3. *Origin*: Summary of the special high-level meeting of the Economic and Social Council with the Bretton Woods institutions, held on 1 May 2001 (E/2001/72)

   Presented to: Substantive session of 2001 of the Economic and Social Council, July 2001

   Proposal (as reflected in para. 23 of the summary of the meeting, held on 1 May 2001): The Chairperson of the Development Committee stated that "(t)rade needed to be leveraged for development so that countries receiving debt relief would not fall back into the debt trap. In this regard, international institutions should provide assistance in capacity-building so that these countries could take advantage of global trade opportunities. The World Bank could help in enhancing the negotiating capacities of the developing countries".

4. *Origin*: G-24 ministerial communiqué, Washington, D.C., 28 April 2001

   Proposal: "Given the complementary nature of this research with the research conducted by the Fund and the Bank, Ministers consider that it would be appropriate for the Bank and the Fund to supplement this assistance annually from their research budgets. This would help build capacity in G-24 member countries and contribute to better governance of the Bretton Woods institutions" (para. 20).

5. *Origin*: G-24 ministerial communiqué, Washington, D.C., 28 April 2001

Proposal: "Ministers stress the need for the Bretton Woods institutions to ensure that developing countries have a larger voice in the decision-making processes of these institutions. They note that the workload of the chairs representing developing countries — particularly the African chairs — on the Bretton Woods institutions Boards has increased significantly as a result of the Poverty Reduction Strategy Process (PRSP), the Heavily Indebted Poor Countries (HIPC) Initiative, and post-conflict and arrears cases. In this regard, Ministers welcome the recent decision of the Fund Board to increase the staffing of Executive Directors' offices, and they urge the Bank Board to follow suit. Moreover, Ministers encourage the Bretton Woods institutions to enhance the representation of developing country nationals in the staffs of these institutions" (para. 18).

6. *Origin*: Boards of the World Bank and IMF, March 2001

   Presented to: Various constituencies (as explained in the proposal)

   Proposal: "The Bank and Fund are inviting contributions from developing countries, aid donors, and civil society organizations. Together with analyses by Fund and Bank

staff, these submissions will serve as background to an international conference on the PRSP approach to be held in Washington, D.C., in January 2002. Papers prepared for the review will be made publicly available. In addition to the international conference, there will also be regional country events to ensure that voices from within PRSP countries are adequately represented. The PRSP review, and a companion review of IMF's Poverty Reduction and Growth Facility (PRGF) being conducted in parallel by the Fund, will be presented to the Executive Boards of the Bank and Fund by endorsing changes in the PRSP framework in March 2002."

7. *Origin*: Report of the Regional Consultative Meeting on Financing for Development in the African Region, and Preparatory Meeting for the Third United Nations Conference on the Least Developed Countries, Addis Ababa, 15-17 November 2000 (A/AC.257/14)

Presented to: Preparatory Committee, February 2001

Proposal: "Another critical suggestion was effective participation by African countries, particularly least developed countries, in global trade negotiations, including the international standard-setting organizations. To this effect, the provision of capacity-building support by developed countries is critical in the following areas: ... building capacity in trade negotiations in order to defend and advance African trade interests. The Integrated Framework for trade-related technical assistance for least developed countries is critical in assisting least developed countries in meeting the challenge of integration into the global economy. Its effective implementation, however, requires substantial funding ..." (para. 46).

8. *Origin*: Development Committee (Joint Ministerial Committee of the Boards of Governors of the Bank and IMF on the Transfer of Real Resources to Developing Countries), 17 April 2000 (see communiqué on the sixty-first meeting contained in appendix VI of IMF, *Annual Report, 2000* (Washington, D.C., IMF, 2000))

Presented to: Board of Executive Directors of the World Bank

Proposal: "The Committee urged the Bank to mainstream trade in its country assistance programmes by providing greater financial and technical support to improve trade-related infrastructure and institutions, including building domestic capacity for trade policy and negotiations, and by undertaking a strengthened research programme on, inter alia, trade barriers to developing-country exports, the issues developing countries face in implementing the Uruguay Round Agreement and the complex links between trade and poverty" (para. 6).

9. *Origin*: Draft resolution contained in the report of the Second Committee (A/54/585/Add.3 and Corr.1, sect. III, draft resolution I)

Presented to: General Assembly at its fifty-fourth session (adopted by the General Assembly on 22 December 1999 (resolution 54/198))

Proposal: The General Assembly strongly emphasized the need for technical assistance, including legal assistance, to developing countries, through, inter alia, the newly established Advisory Centre on World Trade Organization Law and other mechanisms, to enable those countries to take the fullest possible advantage of the dispute settlement mechanism of the World Trade Organization, based on multilaterally agreed rules and regulations, and also in this context emphasized that it was important for the United Nations Conference on Trade and Development to strengthen its technical assistance to developing countries, in particular the least developed countries, landlocked developing countries and small island developing States in this area (para. 25).

10. *Origin*: Executive Committee on Economic and Social Affairs of the United Nations, 21 January 1999 (Report of the Task Force entitled "Towards a new international financial architecture")

Presented to: General Assembly, United Nations system

Summary of the proposal: "The design of the new (international financial) architecture could thus introduce special incentives to develop (regional financial) institutions. For instance, common reserve funds could be given special automatic access to IMF financing and/or a share in the allocation of SDRs, proportional to the paid-in resources. Indeed, in the long run, IMF could be visualized as part of a network of regional reserve funds, and its operation could then concentrate on relations with these reserve funds rather than on support to specific countries in difficulties. Moreover, regional institutions and peer review could also play a central role in surveillance, both of macroeconomic policies and of domestic financial regulation" (sect. 9, second and third paragraphs).

11. *Origin*: G-24 ministerial communiqué, Washington, D.C., 27 April 1997

Proposal: "Ministers noted that the principles of good governance of nations include transparency, accountability, and the rule of law. They stressed that the intergovernmental financial institutions, in following these principles in their own operations, should adhere strictly to the mandates embodied in their respective Articles of Agreement. In addition, they called for the fuller participation of developing countries in the decision-making process of the institutions, as well as in their management and staffing patterns" (para. 8).

12. *Origin*: *Our Global Neighbourhood* (Oxford, Oxford University Press, 1995), the report of the Commission on Global Governance

Presented to: General Assembly, 1995

Proposal: "To establish an Economic Security Council (ESC) to give political leadership and promote consensus on international economic issues, where there are threats to security in its widest sense. The ESC would have deliberative functions only; its influence will derive from the relevance and quality of its work and the significance of its membership. The ESC should be established as a distinct body within the United Nations family, structured like the Security Council, though not with identical membership and independent of it." This idea has also been supported by the High-level Panel on Financing for Development in June 2001.

13. *Origin*: G-24 ministerial communiqué, Bangkok, Thailand, 1 October 1994

Proposal: "Ministers also stressed the importance of the Bretton Woods institutions' broadening their staff recruitment base, so as to reflect varying educational backgrounds and practical experience while maintaining — or even raising — standards of excellence. Such broadening should provide greater opportunities for developing-country candidates to enter the institutions at a variety of staff levels, and should ensure adequate representation of qualified staff from developing countries at senior staff levels" (para. 6).

III. Additional references

6. In the search for the material presented above, several proposals that appeared relevant were identified but, since their relationship to the intergovernmental process was less direct, they were not included in the lists above. What follows are some proposals by high-level authorities and a list of policy-oriented technical papers that deal — at least partially — with the increased and more effective participation of developing countries in the financial and trade-related decision-making processes. Many of the latter proposals were the result of the background technical work prepared at the request of intergovernmental bodies, in particular G-24.

A. Proposals by high-level authorities

1. Supachai Panitchpadki, Deputy Prime Minister and Minister of Commerce, Thailand, "Balancing competing interests: the future role of the WTO" (article in *The Role of the World Trade Organization in Global Governance*, G. Sampson, ed. (Tokyo, United Nations University Press, 2001)). In the same book, a similar proposal is made in the article by P. Sutherland, J. Sewell and D. Weiner entitled "Challenges facing the WTO and policies to address global governance". Panitchpadki suggests the establishment of a representative executive board in the World Trade Organization (or a representative executive committee arrangement) for balancing the decision-making efficiency and the requirement of consensus. In the same essay, Panitchpadki proposes the establishment in the World Trade Organization of a system by which the state of play of any ongoing negotiation in any group would be immediately communicated to all member countries for information-sharing and ultimate decision.

2. Rubens Ricupero, "Rebuilding confidence in the multilateral trading system: closing the legitimacy gap" (article appeared in *The Role of the WTO in Global Governance*, G. Sampson, ed.). In respect of facilitating the accession to the World Trade Organization, Ricupero expresses the need for more "streamlined arrangements, particularly for least developed countries, and arrangements to ensure that all acceding developing countries, including least developed countries, benefit from the relevant S&D (special and different treatment) provision of the MTAs (multilateral trade agreements)" (p. 56).

3. Michel Camdessus, then Managing Director of IMF, remarks to the International Graduate School of Management, 27 November 1999 (link: http://www.imf.org/external/np/speeches/1999/112799.htm)

   Proposal: "... replacing the G-7 Summit every two years by a meeting of the heads of State and Government of the countries — approximately 30 at any one time — who have Executive Directors on the Boards of either IMF or the World Bank. This would provide a fair and legitimate representation of the entire membership of 182 countries. As it would be attended by the heads of the two organizations, the Secretary-General of the United Nations, as well as the heads of the International Labour Organization (ILO) and the World Trade Organization, it would offer a way of establishing a clear and strong link between these institutions and a representative grouping of world leaders with the greatest possible legitimacy."

B. Policy-oriented technical papers

1. Monika S. Ahluwalia, "The IMF and the World Bank in the new financial architecture", in UNCTAD, *International Monetary and Financial Issues for the 1990's*, vol. XI (1999) (United Nations publication, Sales No. E.99.II.D.25). Ahluwalia talks about possible steps that could be undertaken in order to reform the IMF Interim Committee (since April 2000, the International Monetary and Financial Committee) and Development Committee with a view to effecting a broader participation of emerging market economies in the decision-making process. Ahluwalia discusses the creation of a single overarching group at the ministerial level where the Fund and the Bank would be full partners and the World Trade Organization, UNCTAD, BIS and IOSCO could be permanent observers. The country composition of the new forum could be made wider than that of the Interim Committee.

2. Ariel Buria, "Reforming the governance of the Bretton Woods institutions", paper presented at the G-24 Workshop on Financing for Development, 6 and 7 September 2001, Nigeria House, New York. Buria explains that a restoring of the share of basic votes in IMF "to, say, 11.3 per cent of the total ... would require a more than

fivefold increase in the basic vote of every member country (from 250 to 1,323); restoring the proportion of basic votes per member to what it had been in 1945 would raise the total basic votes to nearly half of total voting power ... An intermediate solution that would partially restore the role basic votes were meant to have, would be to assign to basic votes, say, 25 per cent of the total voting rights. In order to prevent the future erosion of the share of basic votes in the total, the Articles could be amended to include a provision by which in every quota review, total basic votes would increase by the same proportion as total quotas." Moreover, Buria proposes a restructuring of the Executive Board, modalities to protect the rights of minorities and a revision of the quota formulas.

3. Richard Blackhurst, "The capacity of the WTO to fulfil its mandate", in *The WTO as an International Organization*, Anne Krueger, ed. (Chicago, Illinois, University of Chicago Press, 1998). Blackhurst suggests a larger and more activist Secretariat, in which the smaller and poorer countries would be adequately represented. Another suggestion is that the World Trade Organization should itself provide funding to enable each country to keep a minimum number of professionals working full-time on World Trade Organization-related activities.

4. Stephanie Griffith-Jones, and Jenny Kimmis, "The BIS and its role in international financial governance", in UNCTAD, *International Monetary and Financial Issues for the 1990s*, vol. XI (1999). Griffith-Jones and Kimmis come to the conclusion that it is important to ensure the participation of developing countries in the Board of BIS, ensure greater and more formalized participation in monthly meetings of central bank governors, increase participation in the three key Basel Committees on a formal basis, and increase the number and types of developing countries included in BIS and the Committees.

5. G. K. Helleiner, "Developing countries global economic governance negotiation processes", paper for the W Institute for Development Econon Research (WIDER) project on the new and functions for the United Nations and Bretton Woods institutions, directed Professor Deepark Nayyar. After analys the disproportionate influence of s countries in agenda-setting and choice forums, Helleiner proposes the revival the Group of Twenty (with the same nun of developed and developing countries). Group should not function solely a Committee of the IMF Board as it dic the past but should constitute intergovernmental task force answer and reporting not only to the IMF but to the World Bank, BIS, IOSCO and Economic and Social Council of the Un Nations.

6. G. K. Helleiner, "A conference on fina and development?", in *Internatio Finance and Developing Countries in a of Crisis: 1997 Discussions at the Un Nations*, Barry Herman and Krish Sharma, eds. (Tokyo, UNU Press, 19 Helleiner analyses current decision-mal structures. In order to reform the latter proposes a global conference as a us starting point towards a more effec process of change. He complements proposal with four not necessarily mutu exclusive options to improve the gl economic and financial decision-mal process.

7. Constantine Michalopoulos, "Develop countries' participation in the World T Organization", March 1998 (paper avail at World Bank). To make their participa more effective, Michalopoulos recomm that the developing countries estab adequately staffed World T Organization missions based in Geneva failing this, that they pool their resou and representation in Geneva, and m sure that they pay their dues, which typically small. He recommends that international community place hi

priority on programmes of assistance in support of institutional development of poorer countries aimed at enhancing their capacity to participate in the international trading system and the World Trade Organization, and that the World Trade Organization review its internal rules and procedures to ensure that, inadvertently, they do not make developing countries' participation more difficult.

8. Constantine Michalopoulos, "WTO accession for countries in transition", June 1998 (paper available at World Bank). To help expedite the procedural aspects of accession, Michalopoulos suggests that World Trade Organization members "should consider increasing very substantially the resources made available to the World Trade Organization secretariat in assisting acceding Governments in the preparation of the original memorandum and in the design of legislation and regulations that would enable them to meet World Trade Organization obligations. This need not entail large increases in the World Trade Organization secretariat staff. It can be done by setting up a special trust fund earmarked for technical assistance in support of accessions, say, of the order of $4 million-$5 million for the next three to five years".

9. Pierre S. Mistry, "Resource mobilisation: policies on borrowings and guarantees", chap. 3 in *Multilateral Development Banks: An Assessment of their Financial Structures, Policies and Practices* (The Hague, Forum on debt and development (FONDAD), 1995). Mistry proposes a more automatic increase in the capital of the World Bank and regional development banks to do away with the contentious negotiations that take place every five years and that are largely dominated by donor shareholders. He proposes an automatic increase in callable capital which will increase total capital each year by a multiple of retained earnings accumulated that year.

10. Aziz Ali Mohammed, "The future role of the Monetary Fund", in *G-24 Discussion Paper Series*, No. 11 (April 2001). Mohammed suggests a change in constituency representation on the Executive Board of IMF by which the European countries would agree to cede one or more of their chairs to the sub-Saharan African countries. Furthermore, Mohammed contemplates changes in the quota formula towards a group-focused approach. A group criterion (rather than a country-focused one) would take into account the degree of volatility in private capital movements and/or the extent of integration into global capital markets as variable(s) in order to give greater weight to the emerging-market economies.

11. T. Ademola Oyejide, "Interests and options of developing and least developed countries in a new round of multilateral trade negotiations", in *G-24 Discussion Paper Series*, No. 2, (May 2000). Oyejide calls for a more aggressive use of technical assistance that should be focused on the "key human, knowledge and institutional capacity-building needs of the low-income members of the World Trade Organization". To this end, he suggests the opening of new World Trade Organization regional offices in Africa, Asia and Latin America.

12. UNDP, *Human Development Report, 1994* (New York, Oxford University Press, 1994).

"A further step in strengthening the United Nations role in sustainable human development would be the creation of an Economic Security Council — a decision-making forum at the highest level to review the threats to global human security and agree on required actions.

"The council must be kept small and manageable. Its membership could consist of 11 permanent members from the main industrialized and more populous developing countries. Another 11 members could be added on a rotating basis from geographical and political constituencies.

"An intermediate alternative would be to extend the mandate of the present Security Council so that it could consider not just military threats but also threats to peace

from economic and social crises. For this purpose, it may be necessary to establish a separate entity within the council — one with an enlarged membership and a new role in socio-economic security.

"Another possibility would be to use the Economic and Social Council — establishing within it a small and manageable executive board that could meet in permanent session and make decisions to be ratified later by the entire body.

"The voting system in an Economic Security Council should not include a veto. But to reassure all constituencies that their legitimate interests would be protected, the voting system should be to have all decisions ratified not just by a majority of all members but also by majorities of the industrialized and developing countries.

"As well as coordinating the activities of the United Nations agencies, the Economic Security Council would act as a watchdog over the policy direction of all international and regional financial institutions. To implement its decisions effectively, the council should have access to the global human security fund proposed earlier. The council would need to be backed by a professional secretariat to prepare policy options for its consideration" chap. 4, sect. entitled "New institutions for the 21st century: Economic Security Council".

For further related material see Edward C. Luck, "A review of United Nations reform-related projects supported by the Ford Foundation, 1985-1996", July 2001; and document WGUNS/CRP.3/Add.3 of the "Open-ended High-level Working Group on the Strengthening of the United Nations System (April 1996).

7. **Note**: The full text of the proposals (and the corresponding quotes) identified above can be found on the financing for developing web site under http://www.esa.un.org/ffd/policydb/ with the exception of the G-8 proposal (sect. C, proposal No. 1) (which was made before the press and is not part of an official document) and the joint World Bank/IMF proposal (sect. C, proposal No. 6) which is available at http://www.imf.org/external/news.htm .